

## Corporate Governance Talk

CEO Suzuki  
×  
Outside Director  
Ohtsubo

**Highly effective governance enhances  
transparency in management and  
facilitates world-leading  
business execution.**

**Jun Suzuki**  
President and CEO  
Representative Director of the Board

**Fumio Ohtsubo**  
Outside Director  
(Special Advisor to  
Panasonic Corporation)

## Hallmarks of Teijin's Governance Structure

**Suzuki** The year 1999 marked a major turning point in Teijin's corporate governance. It was the year the Company introduced a corporate officer system, established the Advisory Board, and instituted outside auditors. In 2003, outside directors were added to the team, leading to the current company with Board of Statutory Auditors system. Teijin currently has nine directors (five inside and four outside directors) and five auditors (two inside and three outside auditors), for a total of 14 members.

We take pride in our pioneering approach to corporate governance, having established the Advisory Board 20 years ago as an advisory body for management with functions to give recommendations for the nomination and compensation of the CEO and chairman.

**Ohtsubo** From the perspective of an outside director, I agree that Teijin has taken some pioneering steps in corporate governance. However, other companies are also quick to adapt to changes in the external environment as we did with establishment of the Corporate Governance Code in 2015. Teijin needs to continue evolving, without stopping to enjoy the progress it has made in the past. Another hallmark feature of Teijin is its easily understandable corporate philosophy from both an internal and external standpoint. From a broad perspective, the role of corporate governance is to efficiently monitor and ascertain whether business execution adheres to the corporate philosophy from a strategic and ethical perspective. In this sense, Teijin's well-defined corporate philosophy allows it to effectively implement corporate governance. This is why I believe Teijin has continued to be in business for an entire century.

## Impact of Board of Directors on Management

**Suzuki** At Teijin, we believe the role of the Board of Directors goes beyond monitoring business execution (supervision) to also encompass coaching and advising management. The Board of Directors deals with three kinds of agenda items: policy debates, decision-making and reporting. The corporate officers first present the course of action and broader strokes of policy for an agenda item as a matter for policy debate, then receive any necessary advice and submit a final proposal as a matter for "decision-making," which is followed up with "reporting" after transitioning to the business execution stage. Multiple matters are advanced at the same time in parallel, so members of the Board of Directors tend to ask many questions and give plenty of guidance. These matters vary from improving returns for shareholders to the social significance of Teijin. Meetings of the Board of Directors last an average of four hours, and usually with a feeling of tension like at a General Meeting of Shareholders. I sometimes get nervous before going to the meetings once a month.

**Ohtsubo** After becoming an outside director, my lasting impression of the first Board of Directors meeting I attended was the openness of the discussions. The meetings are not merely a formality where the agenda is set in stone in advance and discussions follow the agenda without detour. I believe the Board of Directors is highly effective with this approach.

**Suzuki** Another feature of Teijin is that important matters are deliberated in three layers.

**Ohtsubo** Regarding major items like M&A decisions or formulating medium-term business plans, for example, information is shared with the Board of Directors from the initial planning stages. These items are thoroughly discussed from a variety of perspectives, such as macroeconomic, geopolitical and practical standpoints. Then the policy proposed by the business execution side is deliberated a second time in this context. If it is an M&A proposal, specifics are discussed in detail, such as how to take the best approach and ready capital. In the third and final round of deliberation, a decision is reached after discussing the actual plan put together after the second round of talks. These repeated deliberations allow discussions to focus on key points.

**Suzuki** In our case, outside directors can either apply the brakes or push the accelerator on decision-making. For example, even if the business execution side sets an upper limit for funds allocated for M&A, if an acquisition candidate is a must-have company that aligns well with our strategy, outside directors may push for the M&A deal as a necessary acquisition, even if it means increasing the amount of the investment.

## SUSTAINABILITY PLATFORM

### Corporate Governance Talk

**Ohtsubo** We are able to push down on the accelerator because of Teijin's high level of transparency in management. This is evident in the sheer number of matters that are discussed by and reported to the Board of Directors, and the volume of documents for each agenda item is considerable. A fair amount of time is required to digest these documents before the meetings, but they must be read in order to participate in the discussions. I feel that the outside directors and outside auditors have diligently read through the documents, judging by the quality of their questions and criticisms. When I was first appointed, I remember struggling to carry a thick stack of documents to each meeting of the Board of Directors.

**Suzuki** Outside auditors read the same documents as the outside directors, and provide their opinions after gaining an understanding of the situation. Basically, Teijin is leveraging the benefits of being a company with Board of Statutory Auditors to the fullest extent. There are a total of 14 members in the discussions on the Board of Directors, evenly split between 7 inside members and 7 outside members, including the auditors. Most matters are not decided by majority vote. Everyone engages in a thorough discussion, and even when matters are left for the next meeting due to lingering issues, a priority is placed on making decisions that all members can agree with.

## Advisory Board Improves Transparency of Management

**Suzuki** Members of the Advisory Board comprise two non-Japanese experts, four outside directors, the Company's advisor and the CEO. Meetings are convened twice a year, once each in the spring and fall. The Advisory Board has three main objectives, namely, to advise management from a broad viewpoint, evaluate the performance of the CEO and propose compensation amounts for the CEO, and nominate the next CEO. The Advisory Board does not have any voting rights. The results of their discussions are reported to the Board of Directors.

The Advisory Board was created due to strong concerns about excessive influence of the CEO and management team on promotions and other personnel matters. The longer the

same person serves as CEO, the more influence that person tends to have on personnel matters. The Advisory Board was introduced as a system of checks and balances on this influence.

**Ohtsubo** In the context of advising management, we have received astute criticisms and accurate advice from non-Japanese experts on our board, an executive director & CEO of an American chemicals company and a professor at a famous university. All outside directors are members of the Advisory Board, so they are able to understand current conditions within Teijin and provide advice from an objective point of view.

Teijin also thoroughly evaluates the performance of its CEO. For starters, the CEO must give a 90-minute presentation about business results and a Q&A session for 30 minutes in English. I think CEO Suzuki struggles to speak in English this entire time, but the listeners are also struggling to understand him (laughs). The Advisory Board holds meetings once every six months. The participants read documents before each meeting, and also review the minutes of the previous two meetings. It would not be possible to evaluate performance without doing so.

**Suzuki** I am also a member of the Advisory Board. For matters concerning the nomination and compensation advisory functions of the Advisory Board, an outside director takes the lead on deliberations, and I do not participate in discussions about matters concerning the CEO. After my presentation and the Q&A session are over, I leave my seat during the performance evaluation portion of the meeting. The time I spend waiting outside during my performance evaluation always seems long.



**Ohtsubo** Performance evaluations are based on numerical benchmarks, such as ROE and ROIC. Areas difficult to express in figures are thoroughly discussed in the meeting. This is why the meetings tend to last a long time.

**Suzuki** Regarding future CEO candidates, the Advisory Board gives advice from the succession planning stage. Teijin does not simply select candidates from a pool of available people.

**Ohtsubo** At every meeting, I have an opportunity to see the presentations of future CEO candidates. The most important thing, I think, is that the candidates have their confidence and insight in answering questions after their presentation. Since there are still many things that cannot be learned from the first or second presentation, we need to continuously watch the candidates. We feel significant responsibility in assuming an integral part of the selection process.

**Suzuki** The members would probably have a hard time reaching a decision without taking all these steps. Naturally, I also went through this process when the Advisory Board recommended me for the CEO position.

**Ohtsubo** I believe the Advisory Board is a system that has been put together well from the standpoint of keeping management on their toes. The Advisory Board fulfills an advisory



function for CEO nominations and compensation, and outside directors are also involved in the Nomination Advisory Committee and Remuneration Advisory Committee for advising on the nomination and compensation of directors other than the CEO. This structure facilitates liaisons between these entities. Performance evaluations for the CEO also relate to the evaluations of other directors, because the CEO is not solely responsible for performance.

## Suggestions from an Outside Director

**Ohtsubo** As an outside director, I think Teijin needs to strengthen its on-site execution capabilities. Information is shared with the Board of Directors from the initial planning stage of an M&A deal or medium-term business plan, so it is clearly understood how a particular idea is advancing. Teijin is quite capable at planning. However, I sometimes feel that the Company lacks sufficient momentum on execution and progress once a plan moves to the execution stage.

**Suzuki** Can you give a specific example?

**Ohtsubo** For instance, I recall the plan of action after Teijin acquired U.S.-based Continental Structural Plastics Holdings Corporation (CSP) in 2017. For starters, a major deal like this never goes according to the initial plan, but I sensed a lack of momentum after the acquisition. As an outside director, I went to see what was actually going on over there. After talking with a local manager, I quickly figured out that he fully

understands the problem. Back then, immigration policy was changing in the U.S., and CSP had a hard time hiring enough people to work in manufacturing. In this case, I honestly thought local management should quickly come up with ideas to solve this problem.

**Suzuki** I am thankful that our outside directors are willing to put their foot on the accelerator rather than the brakes.

**Ohtsubo** I believe Teijin has a practical system of corporate governance with thorough information sharing, lively and open discussions, and advice and ideas from human resources who have diverse backgrounds. However, we should not be completely satisfied with its current state.

**Suzuki** I will keep that in mind.